

- Exports down 2.2% in June
- New motor vehicle sales slip 0.4% but wholesale sales bounce back (+1.3%) in June
- Thirty-eight percent of Vancouver-area residents are immigrants

## The Economy

- Exports of commodities produced in British Columbia fell 2.2% (*seasonally adjusted*) in June, unable to sustain the substantial growth of 12.5% achieved in May. A drop in exports of industrial and consumer goods (-8.6%) was responsible for much of the overall decline, but shipments of energy (-4.9%) and forest products (-0.9%) also contributed to the weaker performance in June.

Shipments to destinations other than the United States plunged 11.7% in June after climbing a whopping 25.6% in May. However, exports to the United States rose 3.9%, the fifth consecutive monthly increase.

*Data Source: Statistics Canada & BC Stats*

- Sales of new motor vehicles in BC slipped 0.4% (*seasonally adjusted*) in June. Nationally, sales dropped 1.9% due to a slump in transactions of passenger cars (-3.6%), as truck sales were virtually unchanged from May. It is possible that the high prices at the pump are discouraging potential buyers from purchasing new vehicles. Only three provinces recorded growth in new vehicle sales in June: Nova Scotia (+4.4%), New Brunswick (+1.7%) and Manitoba (+1.5%). Newfoundland and Labrador (-8.3%) and Ontario (-3.8%) suffered the most significant declines.

In the first half of 2004, total dollar sales in BC of both cars (+1.3%, *unadjusted*) and trucks (+1.8%) were up over the first six months of 2003; however, sales of trucks manufactured outside of North America were 6.6% off last year's pace. On the other hand, the most significant growth in sales was for passenger cars produced in Japan (+6.7%). *Data Source: Statistics Canada*

- Wholesale sales in BC bounced back in June (+1.3%, *seasonally adjusted*) after inching down in May. Nationally, sales crept up 0.6%, as most provinces posted modest gains. Manitoba (+5.1%) and Saskatchewan (+4.0%) had the strongest growth.

*Data Source: Statistics Canada*

- Receipts from restaurants, caterers and taverns in BC jumped 4.1% (*seasonally adjusted*) in April. The increases were comparable in both drinking places (+5.9%) and food services (+4.0%) establishments. Total receipts have advanced for twelve consecutive months since May 2003, reflecting higher receipts at restaurants. Receipts at drinking places have been volatile.

*Data Source: Statistics Canada*

## Tourism

- The number of visitors entering Canada via BC border crossings was up in June (+1.5%, *seasonally adjusted*) for a fifth consecutive month. Similar to the growth among overseas visitors (+1.5%), entries from the US were up 1.5%, with a drop in the number of overnight visitors (-0.6%) partly offsetting an increase in those making same-day cross-border excursions (+3.9%).

The number of Canadians travelling abroad slumped in June (-5.8%). Canadians made fewer trips to the United States (-7.3%), while the number of travellers to other destinations (-0.5%) was virtually unchanged from May.

*Data Source: Statistics Canada & BC Stats*

## University Finances

- Student fees generated 21% of revenue for universities and degree-granting institutions in Canada in 2002/03, up substantially from only 12% in 1990/91. Government funding for universities reached 56%, its highest propor-

Did you know...

In the summer and winter Olympics combined, Canada has won a total of 313 medals (not including the current games in Athens) ranking it 14<sup>th</sup> in the world.

tion in six years. While government spending on universities expanded in 2002/03, so too did tuition fees for students. In BC, university revenue from student fees climbed 28% following the lifting of a six-year freeze on tuition rates. However, expenditures by BC universities on scholarships and bursaries also increased substantially, up 16.7%.

*Data Source: Statistics Canada*

- **British Columbia was one of only four provinces where university revenues exceeded expenditures in 2002/03.** BC universities earned \$2.6 billion, but spent only \$2.5 billion. Nationally, universities took in \$18.6 billion, but spent \$19.1 billion.

*Data Source: Statistics Canada*

### Immigrants

- **In 2001, among Canadian Census Metropolitan Areas (CMAs), Vancouver ranked second in terms of recent immigrants, who made up 16.8% of its population.** Victoria had the smallest proportion of recent immigrants in its population, at 3.3%. Toronto had the highest proportion of recent immigrants (those immigrating within the last ten years) at 17.3%.

About 38.2% of the population of Vancouver in 2001 was born outside Canada, again second only to Toronto (44.4%) among Canadian CMAs. By contrast, only 19.0% of people living in the Victoria area were foreign-born.

Immigrants to Canada are far more likely than native-born Canadians to live in CMAs, particularly recent immigrants. In 2001, 94.1% of recent immigrants to Canada were located in a CMA compared to only 58.5% of those born in Canada. The proportion was only slightly lower for those that immigrated between 11 and 20 years earlier, at 91.4% and even for those that immigrated to Canada more than 20 years ago, the share of those living in CMAs (81.8%) was much higher than that of people born in Canada.

The ethnic composition of immigrants has changed dramatically in the last 20 years. In Vancouver the share of recent immigrants from North America, Europe and Oceania fell from 34.3% in 1981 to 8.4% in 2001. At the same time, immigrants from East Asia increased

from 25.8% to 51.0%. While total immigrants arriving in Canada followed a similar pattern, the growth in recent immigrants from East Asia was far more dramatic in Vancouver. Only 23.1% of Canadian recent immigrants hailed from East Asia in 2001.

*Data Source: SC Catalogue 89-613-MIE - No. 003*

### The Nation

- **Canada's deficit in trade in services increased to \$10.9 billion in 2003, a \$4 billion jump from the deficit recorded in 2002.** The change was due to a decline in exports while imports remained basically unchanged. Travel services were the main contributor to the rising trade deficit as exports of these services plunged by \$2 billion while imports increased marginally. Both business and personal travel contributed to the fall in exports, likely due, at least in part, to the SARS outbreak early in the year.

*Data Source: Statistics Canada*

- **Foreign direct investment in Canada rose 2.5% in 2003, while Canadian direct investment abroad dropped 7.1%.** The United States was the main source of increased investment in Canada (+2.3%) as well as the primary target for falling Canadian investment (-16.4%).

*Data Source: Statistics Canada*

- **Foreign investment in Canadian securities increased by \$815 million in June.** This was the smallest growth in the last four months—only half of May's \$1.6 billion increase, which was already a fraction of the \$20.5 billion invested in April. The rise in investment was due to purchases of Canadian money market paper as foreign holdings of both Canadian stocks and bonds fell in June.

At the same time, Canadian investors shed some of their foreign holdings in June, selling off \$413 million worth of bonds and \$782 million worth of stocks. The combined \$1.2 billion decline in Canadian investment abroad was the first drop since January.

*Data Source: Statistics Canada*

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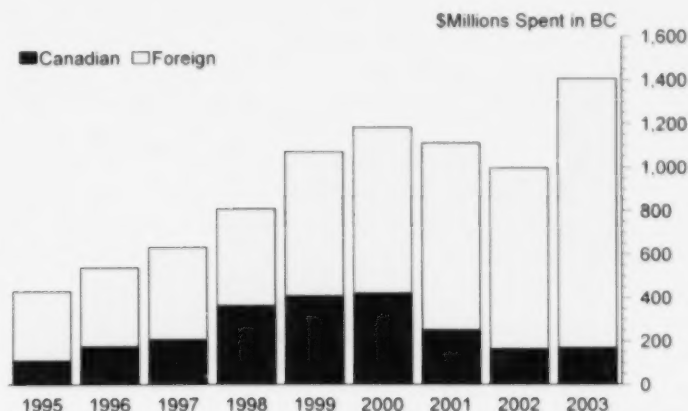
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## Hollywood North Thrives in 2003

According to industry estimates, approximately \$1.4 billion was spent on film and television production in British Columbia in 2003.<sup>1</sup> Foreign producers were responsible for over \$1.2 billion of this amount, or about 88%, which represents a service export for British Columbia. These figures include all the expenditures associated with production, including salaries of local actors and crew, make-up artists, caterers, construction workers and so on. Despite concerns that the rapid appreciation of the Canadian dollar would cause substantial damage to the industry, spending in British Columbia on both Canadian (+3%) and foreign (+49%) film and television productions increased in 2003.

*Film and television production in Canada by foreign filmmakers represents a service export*

Location shooting in BC by foreign producers of film and television has grown tremendously



Source: BC Film Commission

*Spending on film and television production in BC by foreign filmmakers increased 49% in 2003*

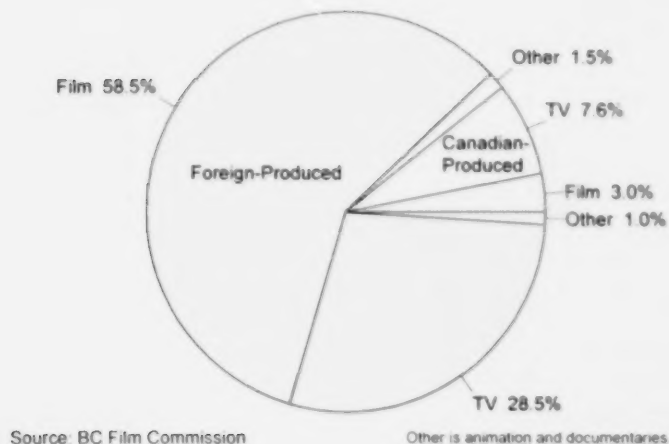
Spending on foreign-produced feature films almost doubled from 2002 to 2003, which was the main reason for the significant growth in overall film and television spending in BC. While feature film-production flourished, both domestic (-36%) and foreign (-42%) production of TV movies, pilots and mini-series fell dramatically. Part of the explanation for this drop is likely the major networks' trend toward more reality-based programming, which is far less expensive to produce and often brings higher ratings than movies

<sup>1</sup> Source: BC Film Commission, *Breakdown of 2003 Productions Shot in British Columbia*, BC Film Commission website: [www.bcfilmcommission.com](http://www.bcfilmcommission.com)

of the week, or mini-series.<sup>2</sup> However, this trend does not seem to be affecting television series production in British Columbia, as spending on both domestic (+75%) and foreign (+27%) television series increased significantly in 2003.

Although the \$169 million spent in BC on Canadian productions in 2003 is an improvement over 2002, it is a far cry from the peak of \$419 million in domestic film and television spending in 2000. While Canadian productions filmed in BC have slipped in recent years, foreign filmmakers have boosted their spending in the province significantly, increasing their share of total film and television spending from 64% in 2000 to 88% in 2003. Well over half of the \$1.4 billion spent in BC on the industry was derived from foreign-produced feature films.

## Breakdown of Film and TV Production in BC, 2003



*Approximately 88% of all spending on film and television production in BC in 2003 was from foreign sources*

Most of the foreign location production in BC is by American film companies and the rapid growth in the number of American films shot in BC and the rest of Canada has sparked intense debate in the United States where they have coined the phrase "runaway production" to describe film and television projects lost to locations outside the country.<sup>3</sup> A couple of years ago some people in the industry were suggesting that incentives offered to the film industry by the Canadian federal and provincial governments amounted to unfair trade practises and an attempt was made to

<sup>2</sup>In fact, according to an annual report published by the Canadian Film and Television Production Association, *Profile 2004: An Economic Report on the Canadian Film and Television Production Industry*, the reality show *Survivor* was by far the top-rated show in Canada between September 2002 and August 2003.

<sup>3</sup> For more background on this issue, see the article "Is 'Runaway' Film Production in Canada Harming the U.S. Industry?" in the December 2001 issue of *Exports*.

launch a complaint under NAFTA. So far that effort has been fruitless, but the issue has resurfaced several times, including fairly recently when a member of the United States Congress sent a letter of protest over Universal Studio's decision to shoot the film *Cinderella Man* in Toronto instead of an American location. Ironically, the decision was made for logistical rather than financial reasons, because the story takes place in Madison Square Garden circa 1935 and Toronto's Maple Leaf Gardens is a similar structure built in that era that is still standing (unlike the old Madison Square Garden, which has since been replaced).

It is true that both the Canadian and most provincial governments, including British Columbia, do offer incentives to the film industry, mostly in the form of tax credits. There are also other countries, such as Australia, South Africa and Hungary, just to name a few, that try to lure the American film industry by offering inducements. However, the film industry also has access to a variety of incentives in the United States itself. In fact, as many as 40 states offer incentives ranging from sales and use tax exemptions to more complicated schemes involving a combination of tax credits and exemptions, plus some rebates. There has also been a push to introduce a federal tax incentive measure in the United States. Often the same people arguing that Canada's incentives are illegal are also lobbying for similar measures in the United States. This contradiction has many in the American film industry opposed to any kind of trade action against Canada, fearing that it may interfere with the availability of domestic incentives.

While incentives such as tax credits may help attract major film projects, the real driver of where a filmmaker decides to shoot is often the overall cost of the project and this is where many countries have a decided advantage over the United States. Aided by the favourable exchange rate, Canada can offer a lower cost atmosphere, which is particularly attractive for major film studios when the production and marketing costs of a major motion picture are averaging over US\$100 million.<sup>4</sup> Many traditional locations in the United States, such as Los Angeles, have simply priced themselves out of the market. Hollywood has not only lost business to other countries such as Canada, but also to other states such as North Carolina. The search for cost savings is one of the reasons that, for the last two years running, the Best Picture winner at the Academy Awards has been filmed outside the United States: *The Lord of the Rings: Return of the King* was shot in New Zealand and *Chicago* was filmed in Toronto.

*Most states in the US also offer incentives to the film and television industry*

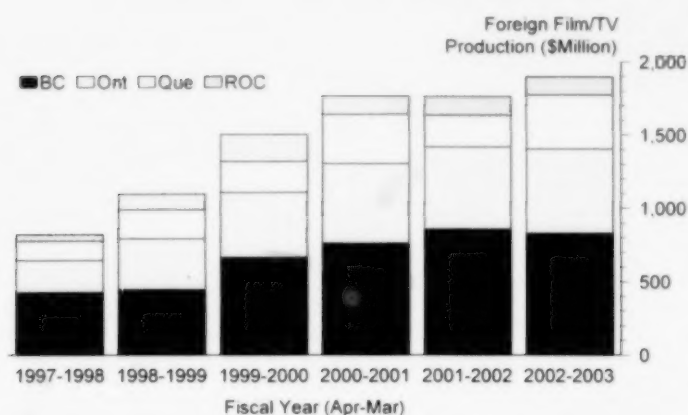
*The United States is often a more expensive place to shoot regardless of incentives*

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<sup>4</sup> According to an article from the *Associated Press* (David Germain, "Production Costs Surge for Studio Films," March 23, 2004), the top seven studios spent an average of US\$102.8 million on production and marketing of their films in 2003, which represented an increase of 15% from 2002. The average production costs were US\$63.8 million and marketing of the films cost an average of US\$39.0 million.

The growth in foreign location shooting in Canada in recent years has added fuel to the fire for industry protectionists in the United States. According to a report published by the Canadian Film and Television Production Association (CFTPA),<sup>5</sup> spending on foreign location film and television production in Canada increased 132% from 1997-1998 to 2002-2003. Quebec saw the most growth with an increase in expenditures of 185%, followed by Ontario at 160%. British Columbia's foreign location production almost doubled, jumping 95%. Over that period, BC's share of Canada's foreign-produced film and television projects ranged from about 40 to 50 per cent.

## Between 40 and 50 per cent of foreign location production in Canada is filmed in BC



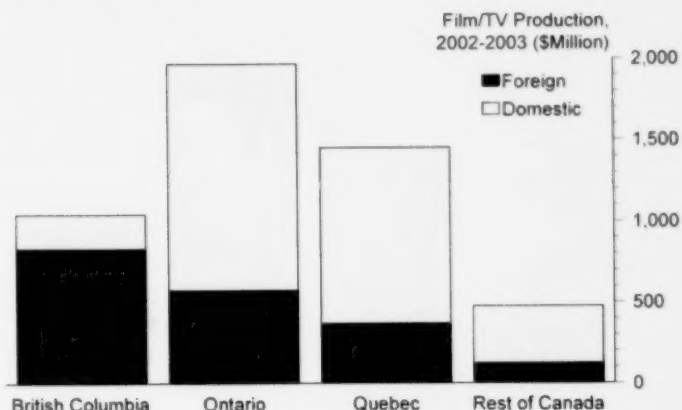
*Foreign location production has increased across the country*

Source: CFTPA, APFTQ, Department of Canadian Heritage

The British Columbia film and television industry is far more reliant on foreign productions than that of other provinces. In 2002-2003, 80% of film and television production was from foreign sources, compared to only 29% in Ontario and 25% in Quebec. BC's proportion of film production represented by foreign location shooting has grown substantially over the last few years. In 1998-1999, only 51% of all production in BC was from foreign sources, although that was down from 71% a year earlier.

<sup>5</sup> *Profile 2004: An Economic Report on the Canadian Film and Television Industry* is an annual report published by the Canadian Film and Television Production Association with the collaboration of l'Association des producteurs de films et de télévision du Québec and the Department of Canadian Heritage using facts and figures prepared by the Nordicity Group Ltd. Note that figures quoted from this publication may not be entirely consistent with those from the BC Film Commission due to definitional or methodological differences.

## British Columbia is far more reliant on foreign location film and TV production than any other province



Source: CFTPA, APFTQ, Department of Canadian Heritage

*BC's film industry is comprised mainly of foreign location production*

The demand by some in the US film industry that all American films should be made entirely in the United States ignores the fact that not all financing of these films comes from American sources and also that the industry in the US generates a significant proportion of its revenues from foreign sources through distribution of film and television, and sales of videocassettes and DVDs. In fact, according to the CFTPA report, American films earned 87.5% of total Canadian box office receipts in 2002, or \$843 million. Add in the money Canadian broadcasters pay for American programming and the receipts from sales of videocassettes and DVDs and the total is probably at least \$2.0 billion annually,<sup>6</sup> which is more than Hollywood spends in Canada, at least according to the CFTPA report.<sup>7</sup> In other words, Canada imports more film and television services than it exports.<sup>8</sup>

*Canada imports more services from Hollywood than it exports*

While the film and television industry can be lucrative, it still represents a small part of British Columbia's overall output. In 2003, it comprised around 0.2% of the province's GDP, although this figure does not include some of the indirect and induced impacts. However, even using production numbers published by either the BC Film Commission or in the CFTPA report, the size of

<sup>6</sup> Unfortunately, it is difficult to find consistent figures on film and video distribution, but according to Statistics Canada's Film, Video and Audio-Visual Distribution and Videocassette Wholesaling Survey, in 2002-2003 there was revenue of \$1.2 billion in distribution of non-Canadian film and television. In addition, revenue from sales of videocassettes and DVDs totalled \$1.6 billion, of which over 98% was attributable to foreign content.

<sup>7</sup> Foreign location production in Canada in 2002-2003 was \$1.9 billion according to the report.

<sup>8</sup> This is probably true even including exports of Canadian-made film and television, which amounts to about half a billion dollars.

BC's film and television industry is still relatively small compared to other industries in the province. Nevertheless, the industry in British Columbia is significant and it is growing. The one concern for Canadian filmmakers may be that it is growing mostly due to expansion in foreign location production, while domestic production has fallen off.

According to the CFTPA report, exports of Canadian content production amounted to \$474 million in 2002-2003, but this was down 25% from a year earlier. Domestic television producers took a hit when the federal government reduced its contribution to the Canadian Television Fund by 25% in February 2003. Ironically, the cut came at the same time the government boosted its tax credit for foreign producers filming in Canada to 16% from 11% of all labour expenditures made in Canada. The improved tax credit was an attempt to compensate for the rising Canadian dollar, thus keeping Canada competitive as a filming location, but the concurrent reduction in domestic funding sent out a bad message that the government was more interested in attracting foreign filmmakers than encouraging its own. In British Columbia, domestic filmmakers lost a potential source of financing when the provincial government's feature film production program expired at the end of March 2004.

Due to a virtual stranglehold that American distributors have on Canadian theatres, domestically produced movies have a tough time finding a Canadian audience. This already puts the Canadian film industry at a disadvantage and the burgeoning foreign location filming may come at the expense of locally produced fare. It is possible that film and television service exports, already weighted in favour of foreign location filming may become even more so in the future.

*Canadian film is taking a backseat to American culture*



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## BC at a glance . . .

| <b>POPULATION (thousands)</b>                                                                           |           |                          |
|---------------------------------------------------------------------------------------------------------|-----------|--------------------------|
|                                                                                                         | Apr 1/04  | % change on one year ago |
| BC                                                                                                      | 4,177.4   | 1.0                      |
| Canada                                                                                                  | 31,825.4  | 0.9                      |
| <b>GDP and INCOME</b>                                                                                   |           |                          |
| (BC - at market prices)                                                                                 | 2003      | % change on one year ago |
| Gross Domestic Product (GDP) (\$ millions)                                                              | 142,418   | 5.1                      |
| GDP (\$ 1997 millions)                                                                                  | 130,914   | 2.2                      |
| GDP (\$ 1997 per Capita)                                                                                | 31,572    | 1.4                      |
| Personal Disposable Income (\$ 1997 per Capita)                                                         | 19,495    | -0.4                     |
| <b>TRADE (\$ millions, seasonally adjusted)</b>                                                         |           |                          |
|                                                                                                         |           | % change on prev. month  |
| Manufacturing Shipments - Jun                                                                           | 3,493     | -1.3                     |
| Merchandise Exports - Jun                                                                               | 2,779     | -2.2                     |
| Retail Sales - May                                                                                      | 3,882     | -0.2                     |
| <b>CONSUMER PRICE INDEX</b>                                                                             |           |                          |
| (all items - 1992=100)                                                                                  | Jun '04   | 12-month avg % change    |
| BC                                                                                                      | 123.6     | 1.8                      |
| Canada                                                                                                  | 125.1     | 1.7                      |
| <b>LABOUR FORCE (thousands)</b>                                                                         |           |                          |
| (seasonally adjusted)                                                                                   | Jul '04   | % change on prev. month  |
| Labour Force - BC                                                                                       | 2,245     | -0.2                     |
| Employed - BC                                                                                           | 2,082     | 0.1                      |
| Unemployed - BC                                                                                         | 163       | -3.4                     |
|                                                                                                         |           | Jun '04                  |
| Unemployment Rate - BC (percent)                                                                        | 7.3       | 7.5                      |
| Unemployment Rate - Canada (percent)                                                                    | 7.2       | 7.3                      |
| <b>INTEREST RATES (percent)</b>                                                                         |           |                          |
|                                                                                                         | Aug 18/04 | Aug 203/03               |
| Prime Business Rate                                                                                     | 3.75      | 4.75                     |
| Conventional Mortgages - 1 year                                                                         | 4.40      | 4.55                     |
| - 5 year                                                                                                | 6.30      | 6.55                     |
| <b>US/CANADA EXCHANGE RATE</b>                                                                          |           |                          |
|                                                                                                         | Aug 18/04 | Aug 203/03               |
| (avg. noon spot rate) Cdn \$                                                                            | 1.3073    | 1.4024                   |
| US \$ (reciprocal of the closing rate)                                                                  | 0.7663    | 0.7124                   |
| <b>AVERAGE WEEKLY WAGE RATE</b>                                                                         |           |                          |
| (industrial aggregate - dollars)                                                                        | Jul '04   | % change on one year ago |
| BC                                                                                                      | 682.85    | -0.7                     |
| Canada                                                                                                  | 678.57    | 2.4                      |
| <b>SOURCES:</b>                                                                                         |           |                          |
| Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada          |           |                          |
| Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics                              |           |                          |
| For latest Weekly Financial Statistics see <a href="http://www.bankofcanada.ca">www.bankofcanada.ca</a> |           |                          |

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